

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 EB-07 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 AGR-10 TAR-01 L-03 H-02

FTC-01 STR-04 CEA-01 /088 W
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R 291559Z OCT 75

FM AMEMBASSY TUNIS

TO SECSTATE WASHDC 634

UNCLAS SECTION 1 OF 2 TUNIS 6421

PASS OPIC

PASS TREASURY

PASS COMMERCE

E.O. 11652: N/A

TAGS: EINV, EAGR, USTSJC, TS

SUBJ: GUIDELINES FOR FOREIGN PARTICIPATION IN AGRIBUSINESS
VENTURES

INTRODUCTION AND SUMMARY. JOINT COMMISSION SESSION AND SEPARATE MEETINGS PERMITTED DISCUSSION AND CLARIFICATION OF SEVERAL PENDING MATTERS. ONE OF THESE WAS GOT INTEREST IN FOREIGN PARTICIPATION IN AGRIBUSINESS VENTURES. SENIOR TUNISIAN OFFICIAL INDICATED THAT IN ORDER ASSURE ADEQUATE SUPPLY OF AGRICULTURAL PRODUCE FOR SUCH VENTURES, GOT HAS AGREED PERMIT CONCLUSION OF PRODUCTION CONTRACTS WITH STATE LANDS OFFICE WHICH CAN INCLUDE PROVISION FOR SOME CONTROL OVER WHAT IS PRODUCED AND HOW. WHILE PROPOSED ARRANGEMENTS ARE NOT VERY FORTHCOMING, THIS IS FIRST TIME GOT HAS ENUNCIATED ITS POLICY. SUGGESTED ARRANGEMENTS MAY BE ATTRACTIVE TO SOME POTENTIAL US INVESTORS, AND WE SUGGEST THEY BE BROUGHT TO ATTENTION OF INTERESTED

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US FIRMS. END SUMMARY.

1. OPIC ACTING VICE PRESIDENT FOR FINANCE MCCALLUM, ACCOMPANIED BY USDOC/CAGNE OFFICER JENSEN AND EMBASSY ECON COUNSELOR LOGAN, HAD MEETING OUTSIDE JOINT COMMISSION FRAMEWORK WITH EZZEDDINE CHALBI, CHEF DE CABINET, MINISTRY OF AGRICULTURE, TO DISCUSS TUNISIAN POLICY TOWARD FOREIGN INVESTMENT IN AGRIBUSINESS PROJECTS. MCCALLUM EXPLAINED THAT SEVERAL INTERESTED US FIRMS DESIRED KNOW TUNISIAN GOVERNMENT POLICY WITH REGARD TO SUCH INVESTMENTS, INCLUDING CLARIFICATION OF PRESENT UNCERTAINTY AS TO HOW INVESTORS COULD ASSURE SUPPLY OF AGRICULTURAL PRODUCE IN VIEW OF TUNISIAN LEGAL CONSTRAINTS ON OWNERSHIP OR OTHER MEANS OF CONTROL OF AGRICULTURAL LANDS. OPIC IS WILLING TO DISSEMINATE INFORMATION ON TUNISIAN AGRICULTURAL POSSIBILITIES BUT CAN NOT DO SO UNTIL GOT POLICY ON THIS MATTER IS CLEAR.

2. CHELBI WELCOMED INTEREST OF US FIRMS IN AGRICULTURAL BUSINESS INVESTMENTS IN TUNISIA. NEEDS ARE IMMENSE BUT SO IS AGRICULTURAL POTENTIAL. CHELBI STATED THAT 1964 LAW NATIONALIZING FORMER "COLONS" PROHIBITS OWNERSHIP, CONTROL OR DIRECT MANAGEMENT OF AGRICULTURAL LAND BY FOREIGNERS OR BY LIMITED LIABILITY COMPANIES (EVEN WHOLLY TUNISIAN-OWNED) AND STIPULATES THAT LAND CAN ONLY BE OWNED BY TUNISIANS, INDIVIDUALLY, COLLECTIVELY OR THROUGH GOVERNMENT.

3. CHELBI STATED THAT GOT RECOGNIZES THAT FOREIGN INVESTOR IN AGRIBUSINESS PURSUIT WANTS ASSURANCES REGARDING SUPPLY, QUALITY, TIMING AND COST OF AGRICULTURAL PRODUCTS FOR HIS VENTURE. AFTER CAREFUL CONSIDERATION, HE SAID GOT HAS AGREED TO ARRANGEMENTS WHICH HE BELIEVES WILL PERMIT FOREIGN INVESTORS TO OBTAIN THESE MINIMUM ASSURANCES. ARRANGEMENT WOULD BE BASED ON PRODUCTION CONTRACT BETWEEN "MARKETING" ENTITY INVOLVING FOREIGNER AND WHOLLY TUNISIAN PRODUCING ENTITY, WITH ADDITIONAL CLAUSES WHICH WOULD GIVE "MARKETING" ENTITY CONSIDERABLE SAY IN NOT ONLY WHAT AGRICULTURAL CROPS ARE PRODUCED, BUT HOW AND WHEN. PRODUCTION CONTRACT COULD STIPULATE ANY DESIRED CONDITIONS IN ORDER GUARANTEE SUFFICIENT AND UNCLASSIFIED

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ADEQUATE PRODUCTION AND QUALITY CONTROLS, INCLUDING REQUIREMENT, FOR EXAMPLE, THAT PRODUCTION UNIT USE TECHNICAL SERVICES, SEED, CHEMICALS AND OTHER PRODUCTION INPUTS FROM "MARKETING" COMPANY. RATES OF RETURN AND PRICING FORMULAS COULD ALSO BE SPECIFIED IN PRODUCTION CONTRACTS.

4. IF "MARKETING" ENTITY IS ONLY ENGAGED IN SIMPLE SORTING AND PACKING FOR LOCAL MARKET, CHELBI SAID GOT WOULD

EXPECT THAT FOREIGN INVESTOR WOULD HAVE MINORITY INTEREST. IF IT WERE PRODUCING FOR EXPORT OR INVOLVED IN MORE ADVANCED FOOD PROCESSING, SUCH AS CANNING, SLAUGHTERING, FREEZING, ETC., FOREIGNERS WOULD BE PERMITTED MAJORITY CONTROL UP TO 100 PER CENT. HE STATED THAT, AT LEAST INITIALLY, GOT WOULD EXPECT THAT TUNISIAN ENTITY CONTROLLING LAND AND PRODUCING AGRICULTURAL PRODUCTS WOULD BE TUNISIAN OFFICE DES TERRES DOMANIALES (OTD), GOVERNMENT OFFICE CONTROLLING ALL STATE LANDS. WHILE PRODUCTION CONTRACT WITH LARGE PRIVATE FIRM WOULD NOT BE A PRIORI PROHIBITED, GOT WOULD FAVOR ARRANGEMENTS WITH OTD WHICH WOULD GIVE GOVERNMENT GREATER ABILITY CONTROL OPERATION AND ENSURE ADHERENCE TO TUNISIAN REGULATIONS AND POLICIES. STATE LANDS ARE SCATTERED THROUGHOUT COUNTRY, IN ALL CLIMATIC AND GROWING ZONES. CHELBI NOTED THAT SEVERAL VARIANTS OF BASIC PRODUCTION CONTRACT ARRANGEMENT WITH OTD ARE POSSIBLE. FOR EXAMPLE, FOREIGNER COULD WHOLLY OWN PROCESSING PLANT OR EXPORT COMPANY WHICH COULD HAVE MINORITY SHARE IN "MARKETING" ENTITY HOLDING PRODUCTION CONTRACT WITH OTD. OTD IN TURN MIGHT BE TUNISIAN MAJORITY PARTICIPANT IN MARKETING COMPANY.

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FM AMEMBASSY TUNIS

TO SECSTATE WASHDC 635

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PASS OPIC

PASS TREASURY

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5. MCCALLUM THANKED CHELBI FOR HIS STATEMENT OF GOT POLICY TOWARD FOREIGN INVOLVEMENT IN AGRIBUSINESS IN TUNISIA AND URGED THAT GOT GIVE SOME PUBLICITY TO THESE GUIDELINES IN ORDER REMOVE ANY DOUBTS IN MINDS OF POTENTIAL INVESTORS. HE ADDED THAT HE COULD NOT PREDICT REACTION OF US AGRIBUSINESS FIRMS TO LIMITED SCOPE OF OPERATION PROPOSED BY CHELBI. SOME FIRMS COULD PROBABLY WORK WITHIN THIS FRAMEWORK BUT SUBSTANTIAL NUMBER OF OTHERS WOULD PROBABLY DEMUR, THUS LIMITING GOT ABILITY TO REALIZE FULL AGRICULTURAL POTENTIAL THROUGH FOREIGN PRIVATE PARTICIPATION.

6 CHELBI ALSO NOTED THAT GOT HAS DECIDED SUSPEND POLICY OF DISTRIBUTING STATE LANDS TO SMALL FARMERS EXCEPT FOR SMALL SCATTERED PLOTS. BREAKUP OF LARGE FARMS FORMERLY OWNED BY FOREIGNERS WOULD PROBABLY HAMPER GOT EFFORTS TO RESTORE PRODUCTION TO PRE-NATIONALIZATION LEVEL BY LIMITING THEIR OPERATING EFFICIENCY.
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7. CHELBI SAID MOST PROMISING AGRIBUSINESS AREAS AT PRESENT ARE FRUIT, VEGETABLES AND SEEDS. DAIRY ACTIVITY NOT ATTRACTIVE BECAUSE ADMINISTERED PRICE OF MILK KEPT LOW, EVEN BELOW THAT OF MINERAL WATER. CHELBI NOTED THAT, IN GENERAL, GOT TAKING DIM VIEW OF AGRIBUSINESS PROJECTS WHICH APPEAR INTENDED PRIMARILY TO FURTHER EXPORTS FROM FOREIGNERS' OWN ACTIVITIES OUT OF TUNISIA OR WHICH ARE DEPENDENT UPON AVAILABILITY OF SUBSIDIZED PRICES OF AGRICULTURAL PRODUCE IN TUNISIA. SOME PROPOSALS FOR FEED LOT OPERATIONS DO NOT APPEAR ATTRACTIVE BECAUSE OF THESE CONSIDERATIONS, HE INDICATED.

8. LAND TENURE AND CONTROL QUESTION ALSO RAISED DURING MEETING OF US-TUNISIAN SUBCOMMISSION ON TRADE AND INVESTMENT. TUNISIAN RESPONSE NOT PRECISE BUT GENERALLY ALONG LINES OF PRODUCTION CONTRACT APPROACH OUTLINED BY CHELBI. IN SUBSEQUENT CALL ON CHELBI BY NEA/AFN OFFICER AND EMBOFF, CHELBI REPEATED ABOVE GUIDELINES WITH LITTLE VARIATION.

9. COMMENT: EMBASSY AND WASHINGTON OFFICIALS ATTENDING JOINT COMMISSION MEETINGS RECEIVED ASSURANCES FROM OTHER TUNISIAN OFFICIALS (NOTABLY COFITOUR DIRECTOR GUEN AND TUNISIAN AMBASSADOR TO US HEDDA) THAT GOT PREPARED ACCEPT VARIETY OF MEANS, LESS RESTRICTIVE THAN THOSE

PROPOSED BY CHELBI, TO ASSURE SUCCESS OF AGRIBUSINESS
PROJECTS. HOWEVER, WHEN PRESSED, THESE TUNISIAN
OFFICIALS HAVE NOT BEEN ABLE TO PROVIDE ANY FIRM INDI-
CATION THAT SUCH POLICIES ACTUALLY APPROVED. HENCE
EMBASSY BELIEVES THAT CHELBI FORMULA MUST BE CONSIDERED
AS OFFICIAL GOVERNMENT POLICY UNTIL SUPERSEDED BY MORE
LIBERAL AUTHORATIVE STATEMENT. SUCH STATEMENT MIGHT
RESULT FROM RESPONSE BY PRIME MINISTER'S OFFICE TO
QUESTIONNAIRE SENT TO HIM AT HIS REQUEST ON OCT 10 BY
AMBASSADOR.
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